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USTR FOR WINELAND AND WINTERS, USDOC FOR
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TAGS: [ECON](#) [ETRD](#) [ECPS](#) [TW](#)

SUBJECT: CHUNGHWA TELECOM PRIVATIZATION MEANS BUSINESS AS
USUAL

REF: A. TAIPEI 3466

[B](#). TAIPEI 3195

[C](#). TAIPEI 2822

[1](#)1. Summary: the privatization of Chunghwa Telecom (CHT) on August 10 reduced the percentage of stock controlled by the Ministry of Transportation and Communications (MOTC) to 48%, but will have little practical effects in the near term on company operations. The current MOTC-appointed Board of Directors will not change, and the government retains the right to appoint at least 80% of the Board in the future. Although no longer bound by government procurement regulations, CHT will continue to use its current purchasing system for the foreseeable future. Labor unrest delayed privatization repeatedly, but CHT's strong financial position allowed the company to pledge no salary cuts or layoffs for five years. CHT management believes labor protests were a last desperate effort by the CHT Union to grab as much as possible from the government before privatization and do not expect union protests to continue. End Summary.

[1](#)2. After several false starts due to labor protests and pressure from the Legislative Yuan (reftels), Chunghwa Telecom (CHT) was finally officially "privatized" on August 10 with the sale of 15% of its general stock as American Depository Receipts (ADRs) on the New York Stock Exchange. This sale, combined with the sale of an additional 2% of government held shares on the Taipei Exchange (TAIEX) brought the government's stake in CHT to below 50%. AIT met with Hank Wang, Senior Vice President; Mark Lee, Director, Planning Department; Harrison Kuo, Deputy Director, Planning Department; Kuo Kuo-tsan, Director, Networking Department; and Tang Hung-chao, Engineer, Networking Department, CHT to discuss changes in CHT operations post-privatization.

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Privatization Means Limited Change to Board of Directors
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[1](#)3. Wang explained that privatization of CHT would not affect the composition of CHT's Board of Directors. The current Board is composed of 15 members, not including President Ho-chen Tan. Of these, 12 were appointed by MOTC including two academics and a lawyer who were appointed by MOTC to serve as "independent" Directors. Members serve 2 year terms and will not be replaced before their terms expire in 2006. Currently, the Chunghwa Telecom Workers Union (CHTWU) holds the remaining three seats. When the Board is replaced, CHTWU representation will fall to one member in accordance with Taiwan laws that regulate private companies with significant government investment. As the largest shareholder, Wang expected that the MOTC will continue to appoint all Board members except for the CHTWU representative. He noted that one benefit of privatization was that non-civil servants could be appointed to the Board in the future. He did not rule out the possibility that a foreigner with limited previous ties to CHT could be appointed to the Board. (NOTE: Acer corporation made waves in Taiwan in 2004 by trumpeting its appointment of a foreigner as CEO. In fact, other companies have foreigners in positions of influence, including CHT competitor FarEast Tone, which sports a Dutch CEO. END NOTE.)

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No Change to Procurement Policy
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[1](#)4. The privatization of CHT technically frees it from the requirements of Taiwan's government procurement legislation. However, Wang said CHT will continue to follow its previously established process. CHT developed the Taiwan government web-based procurement system and continues to manage that system. Wang expected that CHT would continue to use that system as long as it continued to be in the best interest of CHT to do so. The benefits in transparency and ease of use for CHT would weigh heavily in any decision to change current CHT procurement practice. When asked about the process that will be used for CHT's next large mobile handset procurement,

expected before the end of 2005, Wang said no changes in their long-standing procurement practices had been discussed and it was his expectation that the process would be similar to past procurements.

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CHT's Long-Term Goals Remain the Same
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15. Mark Lee, Director of CHT's Planning Department, said that privatization will benefit CHT's ability to focus on its core strengths, including management of the fixed-line network, expansion of broadband and 3G services including video, providing value-added ISP services, and improving the performance of the CHT network. Currently, CHT controls almost 80% of the broadband market in Taiwan, 97% of fixed-line service and just over 34% of the mobile telephony market. Lee expected that privatization would not change CHT's goals of providing improved services for customers and maximizing profits for shareholders, but that efficiency would improve as CHT took steps to improve its administrative procedures, control costs, and consolidate billing. These changes will allow CHT to protect its market share and manage the shift to its Next Generation Network (NGN), retiring old analog switching equipment and replacing it with fiber-optic switches over a 15-20 year period. (NOTE: CHT previously told AIT it plans to begin a tendering process for NGN equipment in 2006. END NOTE)

16. Lee also noted that CHT already has extended its activities beyond Taiwan, providing service to Taiwan businessmen operating in Shanghai in cooperation with Chinese carrier IPLE. In addition, CHT has begun looking for opportunities in the U.S., Thailand and other places in Southeast Asia. Prior to privatization, CHT needed Executive Yuan approval to establish international operations. The removal of that restriction will allow CHT to make more efforts abroad.

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Union Actions not a Problem
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17. CHT's labor union, CHTWU, has been a vocal opponent of plans to privatize CHT, conducting several small demonstrations around Taiwan and even following CHT Chairman and CEO Ho-chen Tan to the U.S. to protest as he met with potential investors in CHT's August share release. Wang and Lee dismissed these actions as a bargaining tactic and noted that CHT had no power to meet union demands for continued civil service status and pension benefits. CHT reached an agreement with CHTWU representatives in July, but the union continued to protest to the government in hopes of securing a better deal. As part of the privatization agreement with CHTWU, CHT promised there would be no lay-offs and no salary cuts for five years. Wang said the two sides would continue to hold discussions and that CHTWU should fully list their complaints prior to the next round of meetings. Wang did not rule out future share sales and suggested that it was part of CHT's long-term strategy to convince MOTC to sell additional CHT stock until the government controlled only 34% of the company.

18. Comment: Taiwan committed to privatize CHT in its WTO accession agreement and it took more than three years to do so. However, having officially completed this process does not seem to have changed CHT's outlook, plans, or management in any noticeable way. Despite being "privatized," the government still controls the management and thereby the operations of the company. For the management of CHT, it is business as usual. CHT's new status may actually have a bigger effect on government accounting as CHT was a significant profit center for the government (US\$1.56 billion in 2004) and a source of large pension liabilities. Over 10,000 of CHT's 28,000 employees are over the age of 50 and have been with the company more than 25 years. End Comment.

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